

Fiscal Note

Fiscal Services Division



HF 110 – Internal Revenue Code Update (LSB 1257HV)

Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.iowa.gov)

Fiscal Note Version – New

Description

House File 110 updates the Code of Iowa to incorporate changes to the federal Internal Revenue Code (IRC) enacted by Congress for the period of January 1, 2012, through January 1, 2013, including the American Taxpayer Relief Act of 2012. The Bill does not couple with certain bonus depreciation provisions.

The Bill also removes an existing sunset that would end the Property Tax Appeals Board ([Iowa Code section 421.1A](#)) on July 1, 2013.

The Bill is effective on enactment and portions are retroactive to January 1, 2012, and to January 1, 2013.

Background

House File 110 couples with only one significant federal tax act, the American Taxpayer Relief Act of 2012, approved by Congress on January 1, 2013. Prior to that Act, federal individual income tax rates, exemptions, and deductions were scheduled to revert to levels in place in the early 2000s. This would have resulted in significant federal tax increases for most taxpayers.

With passage of the Act, the temporary income tax decreases of the 2000s were made permanent for the majority of taxpayers. In general, tax rates, exemptions, and deductions returned to the earlier levels only for single taxpayers with federal adjusted gross income (AGI) of \$400,000 or more and \$450,000 or more for married taxpayers. For those taxpayers, federal income taxes likely increased January 1, 2013. For the remaining taxpayers, federal income taxes likely remained the same.

Since Iowa allows taxpayers to deduct federal income taxes paid from Iowa income prior to calculating taxes owed, federal actions that impact the overall level of federal income taxes paid by Iowans automatically and directly impact Iowa tax revenue.

When the Revenue Estimating Conference (REC) met December 12, 2012, Congress had not yet acted. The REC made the general assumption that federal tax law would remain unchanged, meaning that federal income taxes would in fact increase beginning January 1, 2013.

The fiscal impact of the direct deductibility effects of the federal law changes is not a fiscal impact of HF 110. Those direct deductibility impacts are automatic and occur with or without the passage of HF 110.

Updating the Iowa revenue code to couple with federal changes that were enacted from January 1, 2012, through the passage of the American Taxpayer Relief Act does have a fiscal impact since those changes require an Iowa law change before they become effective. The impact of coupling with federal income tax law changes is referred to as conformity impacts.

Fiscal Impact

Division IV of the Bill repeals the sunset of the Property Tax Appeals Board. The current sunset is effective July 1, 2013. The Board receives General Fund support through the appropriation to the Department of Revenue. The fiscal impact of removing the sunset depends on future appropriations made by the Legislature to the Department of Revenue. In FY 2013, approximately \$865,000 of the Department's General Fund appropriation was allotted to the Board.

The conformity fiscal impact of HF 110 is a projected reduction in net General Fund revenue of the following amounts:

- FY 2013: \$24.8 million
- FY 2014: \$35.5 million
- FY 2015: \$13.2 million
- FY 2016: \$ 8.6 million
- FY 2017: \$ 9.0 million

A significant portion of the revenue reduction associated with conformity is related to a depreciation schedule change targeted to smaller businesses known as "Section 179 expensing." Section 179 expensing involves writing off the depreciation of business assets faster. Since more rapid depreciation in the initial years of an asset's life means there is less depreciation to deduct in future years, the fiscal impact of conformity likely turns positive over time.

Conformity with another form of depreciation acceleration targeted to larger companies, and known as "bonus depreciation," is not part of SF 106.

Related Revenue Issue

Since Iowa allows all taxpayers to deduct federal income tax paid from their State taxable income, when Congress enacts legislation reducing federal taxes owed, most Iowa taxpayers see a corresponding increase in their State income tax bill. The State revenue increase occurs automatically when federal tax reductions are enacted and so it does not take legislative action. The Department of Revenue estimates that this "deductibility effect" of the American Taxpayer Relief Act will increase net General Fund revenue by the following amounts:

- FY 2013: \$41.3 million
- FY 2014: \$97.8 million
- FY 2015: \$59.8 million
- FY 2016: \$43.2 million
- FY 2017: \$46.8 million

Sources

Iowa Department of Revenue

/s/ Holly M. Lyons

February 5, 2013

The fiscal note for this bill was prepared pursuant to General Assembly rules and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
